Nick Clegg's speech on 'Plan A plus' shows that the government's fiscal position is increasingly limiting its options to stimulate the economy

This morning the LSE hosted a speech by Nick Clegg on the government's role in the economic recovery. **Henry Overman** *attended the lecture, and left it feeling distinctly underwhelmed at the government's ability to stimulate economic growth*

This morning I attended Nick Clegg's lecture on the economy at the LSE. The plan A plus strategy continues – stay the course on the deficit (plan A) but also think about the demand side of the economy (the 'plus').

You will be able to read the general overview elsewhere, but quite a lot of what he said was of interest to those of use who think about city and regional economies.

The big push, it is claimed will come on infrastructure. This will start with the regional growth fund, where round 2 will, we are told, prioritise infrastructure projects. I don't think this is necessarily a great place to start because much of the economic literature is generally sceptical about the role of infrastructure in boosting local economic activity in struggling areas. After all, as population in these places is historically declining, they likely have plenty of infrastructure relative to people. How is adding more going to help? (You can make a similar argument about net increases in the supply of housing).

Next, confirmation of 'new' powers for local government to raise money to invest in infastructure (i.e. TIF). I support the principle of this, but in practice I worry about the cost of projects and about the possibility of more grand schemes with poor payoffs.

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There will also be action on delays at the planning stage (broadly defined) and in making expenditures to which the government is already committed. The planning system was raised as a problem, but there was also a suggestion that there are other barriers 'within Whitehall'. Clegg suggested that the 40 biggest infrastructure projects with the highest returns will be the recipients of particular attention from government ministers to make sure they proceed on time. Meanwhile, HMT will be going round government departments making sure that they are spending the money at their disposal.

Finally, we should see details soon of government plans to to try to stimulate house building (at its lowest levels since 1924).

I confess to being slightly underwhelmed. I find it hard to believe that bringing within year commitments forward can provide that much of a fiscal stimulus (although perhaps I am overly 'optimistic' about the government's ability to spend money). Delivering transport infrastructure investment on time and on budget (another commitment) is generally a good thing, although unrelated, as far as I can tell, to fiscal stimulus. After all, overspends and overruns still involve government expenditure. I would welcome a genuine move to prioritise transport projects in terms of bang-for-buck (how about dropping HS2 in favour of the kind of smaller high benefit schemes that Clegg highlighted in his speech today)? I might even welcome more infrastructure spending. But with net capital expenditure set to fall dramatically (even if plans are in line with Labour's projections) this prioritisation will take place within a significantly smaller pot.

As Clegg highlighted in his speech, government isn't powerless to act, but the fiscal position means that the options are increasingly limited. I am certainly of the opinion that a lot of this is in no sense 'the coalition's fault' and do not believe that the opposition have any better answers. But still a slightly depressing way to start the day…

The podcast of this morning's event and a copy of the transcript of the speech are available online at: *http://www2.lse.ac.uk/publicEvents/events/2011/20110914t1015vLSE.aspx*

Also, a selection of photographs from the event can be viewed at: http://twitpic.com/photos/LSEpublicevents

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